



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

January 5, 2011

MEMORANDUM

To: The Commission

Through: Alec Palmer
Acting Staff Director

From: Patricia Carmona
Chief Compliance Officer

Joseph F. Stoltz
Assistant Staff Director
Audit Division

Martin L. Favin
Audit Manager

By: Terrence O'Brien
Lead Auditor

Subject: Audit Division Recommendation Memorandum on the Republican Party of Minnesota (A08-01)

Pursuant to Commission Directive No. 70 (FEC Directive on Processing Audit Reports), the Audit Division recommends the Commission approve the finding as presented in the attached Draft Final Audit Report (DFAR). The Office of General Counsel has reviewed this memorandum and concurs with the recommendation. The Committee did not request an audit hearing.

If this memorandum is approved, a Proposed Final Audit Report will be prepared within 30 days of the Commission's vote.

Should an objection be received, Directive No. 70 states that the Audit Division Recommendation Memorandum will be placed on the next regularly scheduled open session agenda.

Documents related to this audit report can be viewed on Voting Ballot Matters. Should you have any questions, please contact Terry O'Brien or Marty Favin at 694-1200.

Attachment:
DFAR of the Audit Division on the Republican Party of Minnesota

cc: Office of General Counsel



Draft Final Audit Report of the Audit Division on the Republican Party of Minnesota

January 1, 2007 - December 31, 2008

Why the Audit Was Done

Federal law permits the Commission to conduct audits and field investigations of any political committee that is required to file reports under the Federal Election Campaign Act (the Act). The Commission generally conducts such audits when a committee appears not to have met the threshold requirements for substantial compliance with the Act.¹ The audit determines whether the committee complied with the limitations, prohibitions and disclosure requirements of the Act.

Future Action

The Commission may initiate an enforcement action, at a later time, with respect to any of the matters discussed in this report.

About the Committee (page 2)

The Republican Party of Minnesota is a state party committee headquartered in St. Paul, Minnesota. For more information, see chart on Committee Organization, page 2.

Financial Activity (page 3)

• Receipts

○ Individual Contributions	\$ 7,089,954
○ Political Committee Contributions	132,390
○ Transfers from Affiliates	6,297,089
○ Loans Received	511,101
○ Offsets to Operating Expenditures	164,596
○ Transfers from Nonfederal Accounts	1,235,414
○ Other Receipts	356,761
Total Receipts	\$ 15,787,305

• Disbursements

○ Operating Expenditures	\$ 4,319,592
○ Federal Election Activity	8,551,821
○ Transfers to Affiliates	1,262,473
○ Contributions to Federal Candidates	3,850
○ Independent Expenditures	335,266
○ Coordinated Expenditures	80,000
○ Loan Repayments	417,994
○ Contribution Refunds	19,810
○ Other Disbursements	419,223
Total Disbursements	\$ 15,410,029

Finding and Recommendation (page 4)

- Misstatement of Financial Activity

¹ 2 U.S.C. §438(b).

Draft Final Audit Report of the Audit Division on the Republican Party of Minnesota

January 1, 2007 – December 31, 2008



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Part I

Background

Authority for Audit

This report is based on an audit of the Republican Party of Minnesota (RPM), undertaken by the Audit Division of the Federal Election Commission (the Commission) in accordance with the Federal Election Campaign Act of 1971, as amended (the Act). The Audit Division conducted the audit pursuant to 2 U.S.C. §438(b), which permits the Commission to conduct audits and field investigations of any political committee that is required to file a report under 2 U.S.C. §434. Prior to conducting any audit under this subsection, the Commission must perform an internal review of reports filed by selected committees to determine if the reports filed by a particular committee meet the threshold requirements for substantial compliance with the Act. 2 U.S.C. §438(b).

Scope of Audit

Following Commission approved procedures, the Audit staff evaluated various risk factors and, as a result, this audit examined:

1. The disclosure of individual contributors' occupation and name of employer;
2. The disclosure of disbursements, debts and obligations;
3. The disclosure of expenses allocated between federal and nonfederal accounts;
4. The consistency between reported figures and bank records;
5. The completeness of records; and,
6. Other committee operations necessary to the review.

Part II

Overview of Committee

Committee Organization

Important Dates	Republican Party of Minnesota
• Date of Registration	August 8, 1975
• Audit Coverage	January 1, 2007 - December 31, 2008
Headquarters	St. Paul, Minnesota
Bank Information	
• Bank Depositories	Two
• Bank Accounts	Eleven
Treasurer	
• Treasurer When Audit Was Conducted	Anthony Sutton (3/19/07 - 7/9/09) David E. Sturrock (7/10/09 - Present)
• Treasurer During Period Covered by Audit	Marina Taubenberger (1/1/07- 3/18/07) Anthony Sutton (3/19/07 - 7/9/09)
Management Information	
• Attended FEC Campaign Finance Seminar	Yes
• Used Commonly Available Campaign Management Software Package	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

Overview of Financial Activity

(Audited Amounts)

Cash on hand @ January 1, 2007	\$ 65
o Individual Contributions	7,089,954
o Political Committee Contributions	132,390
o Transfers from Affiliates	6,297,089
o Loans Received	511,101
o Offsets to Operating Expenditures	164,596
o Other Receipts	356,761
o Transfers from Nonfederal Accounts	235,414
Total Receipts	\$ 15,787,305
o Operating Expenditures	4,319,592
o Federal Election Activity	8,551,821
o Transfers to Affiliates	1,262,473
o Contributions to Federal Candidates	3,850
o Independent Expenditures	335,266
o Coordinated Expenditures	80,000
o Loan Repayments	417,994
o Contribution Refunds	19,810
o Other Disbursements	419,223
Total Disbursements	\$ 15,410,029
Cash on hand @ December 31, 2008	\$ 377,341

Part III

Summary

Finding and Recommendation

Misstatement of Financial Activity

A comparison of RPM's reported financial activity to its bank records revealed an understatement of receipts in 2007 by \$75,267, an understatement of disbursements in 2007 by \$71,446 and an understatement of ending cash on hand at December 31, 2008 of \$174,238. Most of the reporting errors resulted from unreported transfers between RPM's federal and nonfederal accounts. Prior to the issuance of the interim audit report, RPM filed amended reports correcting most of the misstatements noted above. The Audit staff recommended that RPM file amended disclosure reports to correct the remainder of the misstatements. As a result of all amendments filed, RPM materially corrected the misstatements. (For more detail, see page 5)

Part IV

Finding and Recommendation

Misstatement of Financial Activity

Summary

A comparison of RPM's reported financial activity to its bank records revealed an understatement of receipts in 2007 by \$75,267, an understatement of disbursements in 2007 by \$71,446 and an understatement of ending cash on hand at December 31, 2008 of \$174,238. Most of the reporting errors resulted from unreported transfers between RPM's federal and nonfederal accounts. Prior to the issuance of the interim audit report, RPM filed amended reports correcting most of the misstatements noted above. The Audit staff recommended that RPM file amended disclosure reports to correct the remainder of the misstatements. As a result of all amendments filed, RPM materially corrected the misstatements.

Legal Standard

Contents of Reports. Each report must disclose:

- The amount of cash on hand at the beginning and end of the reporting period;
- The total amount of receipts for the reporting period and for the calendar year; and
- The total amount of disbursements for the reporting period and for the calendar year;
- Certain transactions that require itemization on Schedules A (Itemized Receipts), Schedules B (Itemized Disbursements), Schedules H3 (Transfers from Nonfederal Accounts for Allocated Federal/Nonfederal Activity), or Schedules H4 (Disbursements for Allocated Federal/Nonfederal Activity). 2 U.S.C. §434(b)(1), (2), (3), (4), and (5).

Facts and Analysis

The Audit staff reconciled RPM's reported financial activity to its bank records for 2007 and 2008. Below are charts that outline the discrepancies in both years followed by explanations of the misstatements, if known.

2007 Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2007	(\$28,325)	\$65	\$28,390 Understated
Receipts	\$3,556,121	\$3,631,388	\$75,267 Understated
Disbursements	\$3,185,395	\$3,256,841	\$71,446 Understated
Ending Cash Balance @ December 31, 2007	\$342,401	\$374,612	\$32,211 Understated

The understatement of receipts resulted from the following:

• Three unreported transfers from nonfederal accounts	\$50,853
• Unexplained difference	24,414
Understatement of Receipts	\$75,267

The understatement of disbursements resulted from the following:

• Unreported transfer to nonfederal account	\$50,000
• Unreported Bank Fees	1,115
• Unexplained difference	20,331
Understatement of Disbursements	\$71,446

RPM transferred \$50,000 from a federal account to a nonfederal account on October 18, 2007. On October 24, 2007, RPM transferred \$50,000 back to the same federal account. These transfers were not reported.

2008 Activity			
	Reported	Bank Records	Discrepancy
Opening Cash Balance @ January 1, 2008	\$342,401	\$374,612	\$32,211 Understated
Receipts	\$12,003,907	\$12,155,917	\$152,010 Understated
Disbursements	\$12,149,205	\$12,153,188	\$3,983 Understated
Ending Cash Balance @ December 31, 2008	\$203,103 ²	\$377,341	\$174,238 Understated

On December 31, 2008, the cash balance was understated mostly as a result of a 2008 beginning cash understatement and unreported receipts.

The matter was presented to the RPM counsel during the exit conference. The RPM counsel acknowledged the discrepancies in the reports and indicated that the corrections would be made as recommended by the auditors.

Interim Audit Report Recommendation and Committee Response

The Audit staff recommended that RPM amend its reports to correct the misstatements; amend its most recently filed report to correct the cash on hand balance with an explanation that the change resulted from a prior period audit adjustment; and reconcile the cash balance of its most recent report to identify any subsequent discrepancies that may impact the \$174,238 adjustment recommended by the Audit staff.

² RPM's beginning cash on its September Monthly 2008 report was \$6,000 greater than its reported ending cash on the previous report. As a result of this discrepancy, the amounts in the "Reported" column do not total correctly.

In its response, RPM correctly noted that five transfers from a nonfederal account,³ treated as unreported in the interim audit report, were actually reported prior to notification of the audit. The Audit staff incorrectly concluded that these transfers were not reported because they were erroneously reported on Schedules A instead of on Schedules H3 and thus not located as reported entries in the review. Appropriate adjustments to this finding have been made for these items.

RPM pointed out in its response that amended reports correcting the misstatements were filed prior to its receipt of the interim audit report. The Audit staff notes that RPM also filed additional amendments in response to the interim audit report and that as a result of all amendments filed, RPM materially corrected the misstatements. These amendments also corrected reported cash on hand.

³ These transfers totaled \$176,527 and all occurred in March 2008.